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SUBJECT: KUNSHAN'S TAIWAN BUSINESS COMMUNITY

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CLASSIFIED BY: Simon Schuchat , Deputy Principal Officer, ,
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REASON: 1.4 (b), (d)

¶1. (C) Summary: Taiwan business people (Taishang) appeared to be thriving during a February 6 visit by Congenoffs to the Taiwan enclave of Kunshan, located 50 kilometers west of Shanghai. Although some local governments in China were corrupt, the Kunshan government had been very supportive of Taiwan investment. Difficulties included financing issues, the lack of a direct RMB exchange mechanism, and confusing customs practices. Interlocutors were frustrated with Taiwan politics and complained that political issues were hampering economic relations. One Taishang predicted that the KMT would win the 2008 Presidential elections because the DPP was mired in party infighting. Interlocutors noted that Taishang were trying to become more integrated with local Chinese and fewer firms were bringing Taiwan staff to work on the Mainland. Despite this, many from Taiwan still came to the Mainland in search of their fortunes. End Summary.

¶2. (SBU) On February 6, DPO and Congenoffs traveled to Kunshan, Jiangsu province to meet with Taiwan businessmen (Taishang) and discuss economic, political and social issues. The visit was arranged by the Kunshan Taiwan Business Association General Secretary Zhou Zhihua. Mr.. Zhou is also the Vice-Principal of

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the East China Taishang Children's School which is a private school that exclusively uses Taiwan educational materials and teaching methods. Congenoffs visited Qi Yin Collateral Company, Wei Jun Electronic Company, Chang Hwa Representative Office, and Xin Bao (Sampo) Electronic Technology Company. Congenoffs also attended a lunch with Kunshan Taishang.

Supportive Local Government, Few Difficulties

¶13. (SBU) Kunshan is a county-level city under the jurisdiction of Suzhou municipality in Jiangsu province. It is located 50 kilometers from Shanghai. According to a People's Daily report in September 2005, Kunshan is the richest county-level cities in China. It has an official population of 650,000 (around 1 million according to unofficial estimates) and a GDP of approximately USD 10 billion in 2005. Based on the unofficial population estimate, the per capita GDP is 10,000 USD. In comparison, using Shanghai's unofficial per capita GDP is 6,000 USD. There are currently around 2,600 Taiwan companies in Kunshan and 60,000 Taiwan people are either working or conducting business in the county. Most Taiwan companies in Kunshan are IT-related manufacturers.

¶14. (SBU) All of the interlocutors appeared satisfied with the local business environment. According to Zhou Zhihua, Taishang were attracted to Kunshan because of the local government's welcoming attitude. Zhou said the local government was very cooperative and never said "no" to the Taishang. In his meeting with Congenoffs, Qi Yin Commercial Finance Guarantee Company Chairman Wen Shiming had a similar view of the local government and noted that the people of Kunshan generally supported Taiwan investment. According to Wen, the investment climate in Kunshan was much better than that of other cities, particularly those in Southern China. In other cities, local officials took bribes but said nothing positive about Taiwan companies. This, he opined, led many local people to believe that Taiwan investors were taking land and profits away from the community.

¶15. (SBU) Wen, who has lived on the Mainland for over 19 years,
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said that financing issues were the most difficult aspect of being a Taishang. It was not possible for people to directly exchange RMB for Taiwan dollars. Taishang needed to go through a cumbersome process to exchange money. In addition, Taishang had difficulty getting loans from mainland banks as most of their collateral was located in Taiwan. The fact that Taiwan banks did not have permission to operate on the Mainland only added to the problem.

¶16. (SBU) To assist local Taishang, Wen established his fully foreign-owned, commercial loan guarantee company. Wen said this was the first time mainland authorities had licensed such a business. The company provided loan guarantees to Taiwan businesses on a variety of commercial transactions with mainland financial institutions. The company enabled Taishang to leverage assets located in Taiwan. Wen noted, however, that his company was not allowed to make loans or to receive deposits, mainland authorities considered it a non-financial institution. He was optimistic that there would be more progress in this area and that Taiwan banks would be allowed to operate on the Mainland in the near future.

¶17. (SBU) Chang Hwa Bank Representative Ji Rongnian was also optimistic that there would be progress in the financial arena. Chang Hwa Bank is a Taiwan bank, formerly state-owned, headquartered in Taipei. Ji noted, for example, that his bank on the Mainland now had corresponding banking relationships with Taiwan banks. Chang Hwa has had a representative office in Kunshan for nearly five years. The office stands largely empty and Ji spent most of his time playing golf and attending lunches. According to Ji, although Taiwan banks were not allowed to operate on the Mainland, three banks currently had representative offices. Chang Hwa opened up its Kunshan office

because one out of every nine Taishang in China lived in Kunshan. In addition, Kunshan was close to Shanghai and Suzhou, both of which had large concentrations of Taiwan businesses. Ji hoped that Chang Hwa would be able to begin banking operations this year. Economic relations seemed to be improving and there was already an agreement for direct charter flights during the Chinese New Year. The number of flights might increase to weekly flights and there were rumors that Chinese tourists may soon be able to visit Taiwan.

¶8. (SBU) Wei Jun Electronic Company Chairman Su Laide was less optimistic about charter flights. He said it would take another one to two years before there would be weekly direct charter flights between the Mainland and Taiwan. He has lived in China for 11 years and opened a factory in Kunshan because most of his suppliers and customers were in nearby Suzhou. For Su, the most challenging aspect of working in the Mainland was dealing with local leaders. In most other places one only needed to please the customer, but in China one must also please local leaders. One must find ways to help leaders rise up in the system by improving the local economy and increasing jobs. The Mayor of Kunshan when he arrived 11 years ago has now been promoted all the way up to be a Vice-Governor of Jiangsu. Like Wen, Su complained about the difficulties Taishang had in raising funds in China.

¶9. (SBU) Sampo Electronic Technology Vice President David Chou also noted financial issues as the biggest problem in doing business on the Mainland. In particular, he complained about limits imposed by the Taiwan government on Taishang investment. Currently, Taishang could only own 40 percent of a mainland company. Chou also noted that it was difficult to deal with mainland customs practices, which he said were far more complicated than those of Taiwan. He was pleased overall with the local government and said that Sampo opened a factory in Kunshan specifically because of local government assistance. Sampo also had production facilities in Suzhou, Dongguan and Tianjin. Interestingly, Chou felt that the business environment in Dongguan was not as good as it was in Kunshan.

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¶10. (SBU) On labor issues, Chou said Sampo had no problem attracting skilled labor, including from Kunshan and from other cities and provinces. The average salary ranged from USD 130 to USD 150. Because many of the factory's workers came from outside the area, Sampo provided dormitories. Chou estimated Kunshan's real population was 1 million of which half came from elsewhere. Chou also mentioned that Sampo's Kunshan factory employed 1,300 workers, only four of which were from Taiwan. This ratio of Taiwanese to Mainlanders was below the average of other Taiwan factories.

Comfortable Living

¶11. (SBU) All of our interlocutors appeared to be very comfortable living in Kunshan. They had access to four Taiwan TV channels and were up on the latest political developments in Taiwan. As noted above, there was even a school that catered to the children of Taishang. The East China Taishang Children's School provided a Taiwan education to its approximately 580 students. All of the interlocutors appeared to have done well

on the Mainland. According to Su, many Taiwan enterprises in Kunshan were profitable and had grown two to three times since they began operations in Kunshan.

¶112. (SBU) Wen noted that Taishang were trying to become more integrated into the local community. They were selling off residential property that had previously been used exclusively for Taiwan employees. The Kunshan Taiwan Business Association (Tai Xie Hui) was also encouraging Taishang to live among the local people and not to live in exclusively Taiwan communities.

Taiwan Politics: Leave Us Alone

¶113. (C) Our interlocutors appeared to be happy with the local government and their life in Kunshan, but many expressed negative views on the Taiwan government and life in Taiwan. Wen complained that it was impossible to de-link political issues from economic issues. The tense cross-Strait political relationship had a negative impact on the economic relationship and politicians were distorting economic issues to gain votes. Wen put all of his hopes on the KMT winning the 2008 Presidential election. He believed it would be impossible for the DPP to win the elections as it would be difficult to find a candidate to unite the various factions within the DPP. Chen Shui-bian was able to unite all of the factions because when he first came to power he was able to trick people into thinking he was a good leader. Wen explained that there were four different "kings" in the DPP at present. Annette Lu and Frank Hsieh represented the independence faction, while Su Tseng-Chang represented the more moderate reform faction. The last king was Yu Shih-kun and he was closely connected to Chen Shui-bian. All four "kings" needed to cooperate for the DPP to retain power. This was impossible and the KMT would win the 2008 election, whether Ma Ying-jeou was the candidate or not.

¶114. (C) Su was also frustrated with Taiwan politics. Taiwan needed to fix its internal problems, which included the economy and the education system. However, politicians were not focusing on these issues and did not have any good plans to fix Taiwan's problems. It was ridiculous waste of both time and money that he could not fly directly to Taiwan. He was

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particularly upset with changes to the Taiwan educational system, in which students only studied Taiwan's history. There was no real difference between the Taiwan people and the people on the Mainland and students should learn about the history of China. He said that he did not plan on going back to Taiwan for the Chinese New Year as he no longer felt comfortable in Taiwan.

Su avoided answering directly whether he was an indigenous Taiwan person (bendi ren) or whether his family migrated to Taiwan when the KMT left the Mainland (waisheng ren). He noted, however, that the vast majority of the people of Taiwan had emigrated from the Mainland at one point or another.

¶115. (C) Both Wen and Su were also non-committal about whether Taiwan people would be willing to live beneath "the communist flag." Su acknowledged that currently it would be difficult for Taiwan people who enjoyed freedoms not found on the Mainland, to live under a communist government, but noted that the Mainland was now on the road to economic development. Wen avoided this question and simply said that Taiwan people did not want to be

ruled by outsiders. He recalled the KMT take-over of Taiwan and noted that many people still remembered the 2/28 incident.

¶16. (C) Our interlocutors noted that it was very difficult for young people in Taiwan to get jobs. Sampo Vice President Chou said that it was not difficult for them to recruit people to come to the Mainland as people in Taiwan had "no choice" but to try to find work elsewhere. Both Wen and Chou noted, however, that Taiwan companies were bringing fewer staff from Taiwan. Wen said that a company could hire 10 local people for every person it brought from Taiwan. Wen said, nevertheless, Taiwan people were still coming to the Mainland. The Mainland was a big market, and many Taiwan business people found success there.

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